MULTIMEDIA UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

# FINAL EXAMINATION

**TRIMESTER 2, 2015/2016**

## BAC2684 - FINANCIAL STATEMENT ANALYSIS

(All sections/Groups)

7TH MARCH 2016
9.00AM – 12.00 PM
(3 Hours)

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**INSTRUCTIONS TO STUDENT:**

1. This question paper consists of seven (7) pages (excluding cover page) with four (4) questions only.

2. Answer **ALL questions.** Each question is worth 25 marks.

3. Please write all your answers and workings in the Answer Booklet provided.

## QUESTION 1

(a) Consider the following statement: *"While accrual accounting information is imperfect, ignoring it and making cash flows the basis of all analysis and business decisions is like throwing the baby out with the bath water"*

**Required:**

i. Explain what is accrual accounting and provide one (1) example.

(4 marks)

ii. Explain how does accrual accounting provide superior information to cash flows?

(3 marks)

(b) McPhee Corporations Sdn. Bhd. is a retailer dealing in a single product. Beginning inventory at January 1 of this year is zero. Operating expenses for this same year are RM5,000, and there are 2,000 common shares outstanding. The following purchases are made this year:

| | Units | Per Unit | Cost |
|---|---|---|---|
| January..... | 100 | RM10 | RM1,000 |
| March..... | 300 | 11 | 3,300 |
| June..... | 600 | 12 | 7,200 |
| October..... | 300 | 14 | 4,200 |
| December..... | 500 | 15 | 7,500 |

Ending inventory at December 31st is 800 units. End-of-year assets, excluding inventories, amount to RM75,000, of which RM50,000 of the RM75,000 are current. Current liabilities amount to RM25,000, and long-term liabilities equal RM10,000.

**Required:**

i. Determine net income for this year under FIFO, LIFO and average cost inventory method. Assume sales price of RM25 per unit and ignore income taxes.
*(Note: for average unit price, round up to two decimal places)*

(12 marks)

ii. Discuss the effects of inventory accounting methods for financial statement analysis given the results from part (i) above.

(6 marks)

**(Total: 25 marks)**

**Continue...**

## QUESTION 2

(a) On September 1st, 2015, Murah Company Sdn.Bhd., a calendar year corporation, purchased for RM300,000 a 25% interest in Mahal Company Sdn.Bhd. This investment enables Murah Company Sdn. Bhd. exert significant influence over Mahal Company Sdn.Bhd. The book value of Mahal Company at the date of purchase was RM600,000. It is estimated that 60% of the excess of market value over book value should be allocated to property, plant and equipment. The remaining service life of the property, plant and equipment is 10 years. Murah Company will allocate depreciation using the straight-line method. During the calendar year 2015, Mahal Company earned net income of RM180,000 and paid dividends of RM60,000. The dividends were declared and paid at the end of each quarter.

**Required:**

i. Described what is the equity method of accounting

(2 marks)

ii. Prepare journal entry for Murah Company Sdn. Bhd. for the purchase of the investment, the receipt of the dividend on September 30, 2015, the receipt of the dividend on December 31st, 2015 and the proportionate share of net income that Murah Company earned on his investment.

(10 marks)

(b) The selected financial data at the end of Year 1 and forecast for the end of Year 2 for Dolmabache Company Sdn.Bhd. as follows:-

| Account | Year 1 | Year 2 (Forecast) |
|---|---|---|
| Cash | RM70,000 | ? |
| Accounts Receivables | 150,000 | ? |
| Inventory | 64,000 | 150,000 |
| Fixed Assets | 200,000 | 200,000 |
| Accumulated Depreciation | 43,000 | 43,000 |

| Account | Year 1 | Year 2 (Forecast) |
|---|---|---|
| Accounts Payable | RM130,000 | 244,000 |
| Notes Payable | 35,000 | 30,000 |
| Accrued taxes | 18,000 | 0 |
| Capital Stock | 200,000 | 200,000 |
| Accumulated Depreciation | 43,000 | 43,000 |

Continue...

Additional forecast estimates for year 2 :

| | | | |
|---|---|---|---|
| Sales..... | RM825,000 | Net Income..... | RM20,000 |
| Cost of sales..... | 70% of sales forecast | Days' sales in receivables..... | 90 days |

Additional Notes :

1. All Expenses are paid in cash when incurred and that cost of sales is exclusive of depreciation.
2. The company's policy to maintain a minimum cash balance of RM100,000.

**Required:**

Prepare the cash needs (cash forecast) for Year 2.

(13 marks)

**(Total: 25 marks)**

## QUESTION 3

(a) Below are the Statement of Financial Position and Income Statement for Ocean Seven Sdn.Bhd:-

**Statement of Financial Position as at 31st December**
**(in thousands)**

| | 2013 (RM) | 2014 (RM) |
|---|---|---|
| **Assets** | | |
| Cash | 240 | 120 |
| Receivables | 360 | 450 |
| Inventories | 750 | 1,053 |
| Total current assets | 1,350 | 1,623 |
| Fixed Assets | 4,500 | 6,438 |
| Accumulated depreciation | (1,500) | (1,740) |
| Investment in affiliate | 1,000 | 1,050 |
| Goodwill | 1,010 | 980 |
| Total assets | RM6,360 | RM8,351 |

Continue...

| **Liabilities and Equity** | | |
|---|---|---|
| Accounts Payable | 360 | 590 |
| Bonds Payable | 300 | 700 |
| Deferred income taxes | 240 | 260 |
| Capital Stock | 2,400 | 3,200 |
| Additional paid-capital | 900 | 1,300 |
| Retained earnings | 2,160 | 2,301 |
| Total liabilities and equity | RM6,360 | RM8,351 |

**Income Statement For The Year Ended 31st December**
**(in thousand)**

| | **2014 (RM)** |
|---|---|
| Sales | 19,950 |
| Cost of goods sold | 11,101 |
| Gross Profit | 8,849 |
| Selling and Admin Expenses | 7,030 |
| Operating Income | 1,819 |
| Equity in earnings of affiliate (no dividends received) | 50 |
| Gain on sales of Fixed Asset | 2 |
| Income before taxes | 1,871 |
| Income taxes | 920 |
| Net Income | RM951 |

Additional Information

1. In year 2014, Ocean Seven sold machinery bought at RM36,000 for RM18,000 resulting in a RM2,000 gain on income statement.
2. RM810,000 dividends were paid in year 2014.
3. Selling and administration expenses include RM50,000 of interest expense and amortization expense of RM30,000.
4. Cost of good sold includes depreciation of RM260,000.
5. Income tax expense includes deferred tax liability of RM20,000

**Required:**

Prepare the cash flow statement for Year 2014 using indirect method.

(10 marks)

**Continue...**

(b) A Financial Analyst needs to understand the sources and implications of variability in financial statement data.

**Required:**

Identify factors affecting the variability in earnings per share, dividends per share and market price per share that derive from (i) The Company and (ii) The Economy

(15 marks)

**(Total: 25 marks)**

## QUESTION 4

The comparative financial statements of Topkapi Corporation Sdn.Bhd. are presented below:

**Income Statement**
**For The Year Ended December 31**

| | 2015 (RM) | 2014 (RM) |
|---|---|---|
| Net Sales (all on account) | 600,000 | 520,000 |
| Expenses : | | |
| Cost of goods sold | 415,000 | 354,000 |
| Selling and administrative | 120,800 | 114,800 |
| Interest Expense | 7,800 | 6,000 |
| Income tax expense | 18,000 | 14,000 |
| Total Expenses | 561,600 | 488,800 |
| Net Income | 38,400 | 31,200 |

**Continue...**

**Statement of Financial Position**
**As at December 31**

| | 2015 (RM) | 2014 (RM) |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Cash | 21,000 | 18,000 |
| Short-term investments | 18,000 | 15,000 |
| Accounts receivable (net) | 86,000 | 74,000 |
| Inventory | 90,000 | 70,000 |
| Total Current Assets | 215,000 | 177,000 |
| Plant Assets (net) | 423,000 | 383,000 |
| Total Assets | 638,000 | 638,00 |
| Liabilities and Stockholder's Equity | | |
| Current Liabilities | | |
| Accounts payable | 122,000 | 110,000 |
| Income taxes payable | 23,000 | 20,000 |
| Total current liabilities | 145,000 | 130,000 |
| Long-term liabilities | | |
| Bonds payable | 120,000 | 80,000 |
| Total liabilities | 265,000 | 210,000 |
| Stockholder's Equity | | |
| Ordinary Shares (RM5 par) | 150,000 | 150,000 |
| Retained earnings | 223,000 | 200,000 |
| Total Stockholder's Equity | 373,000 | 350,000 |
| Total liabilities and stockholder's equity | 638,000 | 560,000 |

Additional Information :

1. The ordinary shares recently sold at RM19.50 per share.
2. The year-end balance in the allowance for doubtful accounts was RM3,000 for 2015 and RM2,400 for 2014.

**Required:**

i. Calculate the following ratios for 2015 :
   a) Current Ratio
   b) Acid-test ratio
   c) Receivables turnover

**Continue...**

d) Inventory turnover
e) Net Profit margin
f) Asset turnover
g) Return on common stockholder's equity
h) Earnings per share
i) Price-earning
j) Times interest earned

(19 marks)

ii. Compare the current ratio for year 2014 and 2015 and comment on your answers.

(6 marks)

**(Total : 25 marks)**

**END OF EXAM QUESTIONS**